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INFO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE

C O N F I D E N T I A L MADRID 001105

SIPDIS

NSC FOR PAUL BROWN

STATE FOR E, EUR/FO, EUR/WE, EUR/ERA:KESSLER,

EEB/EPPD:WASVARY,HUFF

TREASURY FOR OIA, ALSO FOR INT'L BANKING AND SECURITIES

OFFICE:MURDEN

E.O. 12958: DECL: 10/20/2018

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SUBJECT: REQUEST TO INVITE SPANISH PRESIDENT ZAPATERO TO
THE GLOBAL FINANCIAL SUMMIT

Classified By: Ambassador Eduardo Aguirre, for Reasons 1.4 (b) and (d)

FROM AMBASSADOR AGUIRRE

1.(C) Spanish National Security Adviser Milagros Hernando called me on the evening of October 17 to formally request that President Zapatero be invited to the upcoming global financial summit. She noted the size of Spain's economy and its leading banks, as well as its influence in Latin America. She added that Prime Minister Brown and President Sarkozy were supportive.

2.(C) I strongly recommend that Spain be invited. Spain has the world's eighth largest economy, and its experience in recent years may provide valuable lessons. Because of Spanish authorities' conservative regulation during the country's housing boom earlier this decade, Spanish banks are in relatively better shape than many of their counterparts elsewhere in Europe. Although the severe housing slump that started last year has left banks with troubled loans to construction and real estate companies, none of the banks has needed to be rescued, and the GOS does not anticipate needing to inject capital into them.

3.(C) In addition, Zapatero is in a position to influence, one way or another, some of the sorts of regulation that the USG does not want to see result from the summit process. Having been forced by other European governments' deposit guarantee increases to raise Spain's own deposit guarantee, his financial advisors understand very well the damaging crossborder effects of uncoordinated governmental action. Also, with one of the world's largest current account deficits (over 10% of GDP), Spain is unusually dependent upon crossborder financial flows and so has a great incentive to avoid regulatory measures that would jeopardize such flows.

4.(C) The international stature of Spain's leading banks provide another reason to invite Zapatero. Banco Santander and BBVA are two of the world's largest banks. By market capitalization, Santander is the largest bank based in the Euro zone and the largest not from the U.S., China, or the UK. The two have significant operations in Latin America, the U.S., the UK, and elsewhere. As these banks would be affected by any increase in crossborder monitoring of large institutions of the type proposed by Prime Minister Brown, Zapatero may share our interest in avoiding regulation that would be counterproductive. Santander and BBVA also have followed closely the impact of the crisis in the U.S. Santander last week completed its purchase of Sovereign Bank and had been in talks with Washington Mutual and Wachovia before those institutions took other paths.

5.(C) Spain and Zapatero, by having a seat at the table, can contribute greatly to a successful summit process. I encourage a positive consideration of their request for an invitation.

AGUIRRE